

Audit Report

Lenawee Community Mental Health Authority

October 1, 2002 – September 30, 2003



Office of Audit
Fenton Regional Office
May 2008



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE, LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

May 30, 2008

Judy Ackley, Chairperson, Board of Directors
Lenawee Community Mental Health Authority
1040 S. Winter Street, Suite # 1022
Adrian, MI 49221

and

Roger Myers, Chief Executive Director
Lenawee Community Mental Health Authority
1040 S. Winter Street, Suite # 1022
Adrian, MI 49221

and

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, MI 48913

CERTIFIED MAIL

7007 1490 0001 8196 0573

Dear Ms. Ackley, Mr. Myers, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the Lenawee Community Mental Health Authority for the period October 1, 2002 through September 30, 2003.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; financial status report; explanation of audit adjustments; contract reconciliation and cash settlement summary; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

If the agency disagrees with the MDCH audit findings, the agency must use the appeal process specified in Attachment 9.3.2.1 of the agency's contract with MDCH. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If disputing the adverse action, the agency must submit a request for the Medicaid Provider Reviews and Hearings Process pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. within 30 days of the receipt of this letter. Requests must identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The

Ms. Ackley, Mr. Myers, and Ms. Olszewski

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request must also include any substantive documentary evidence to support the position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405, and MDCH will implement the audit adjustments.

A request for the Medicaid Provider Reviews and Hearings Process must be sent within 30 days of receipt of this letter to:


Administrative Tribunal & Appeals Division
Michigan Department of Community Health
1033 S. Washington
P.O. Box 30763
Lansing, Michigan 48909

For any audit finding and adjustment not in dispute, the agency must submit any resulting amounts due to MDCH within 30 days of receipt of this letter to:

Lisa Halverson, Manager
Revenue Operations Section
Bureau of Finance (Accounting Division)
Michigan Department of Community Health
P.O. Box 30437
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in dark ink, appearing to read "Hemachandran Krishnan", is written over a light gray rectangular background.

Hemachandran Krishnan, Regional Manager
Fenton Regional Office
Office of Audit

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DESCRIPTION OF AGENCY

Lenawee Community Mental Health Authority (LCMHA) was established in 1972 as Community Mental Health Services of Lenawee County. Effective May 10, 1998, LCMHA was reorganized as a community mental health authority. LCMHA operates under the provisions of Act 258 of 1974, the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws.

LCMHA provides outpatient, residential, partial day, case management, prevention, emergency, and Omnibus Budget Reconciliation Act (OBRA) services to residents of Lenawee County.

LCMHA's administrative offices are located in the City of Adrian. LCMHA's board consists of 12 members appointed for three-year terms by the County Board of Commissioners. The board members reside in Lenawee County.

FUNDING METHODOLOGY

LCMHA contracted with the Michigan Department of Community Health under a Managed Mental Health Supports and Services Contract (MMHSSC) for FYE 2003. This provided State General Funds (GF) for providing mental health and developmental disability supports and services to individuals with serious mental illness, serious emotional disturbances or developmental disabilities as described in Section 208 of the Mental Health Code. LCMHA received approximately \$2.1 million of GF funding in FYE 2003. LCMHA reported their GF expenditures related to the MMHSSC to MDCH on a Financial Status Report (FSR) and a settlement with MDCH occurred after the fiscal year end.

Effective October 1, 2002, the Washtenaw Community Health Organization (WCHO) formed a Prepaid Inpatient Health Plan called the CMH Partnership of Southeast Michigan (PIHP). Included in this partnership are LCMHA and two other community

mental health organizations. The PIHP contracts with MDCH for Medicaid funding under a Medicaid Managed Specialty Supports and Services Contract (MMSSSC). MDCH provided both the state and federal share of Medicaid funds as capitated payments based on a Per Eligible Per Month (PEPM) methodology to the PIHP. The PIHP passed the Medicaid funds on to the affiliated community mental health organizations under a separate “Medicaid Subcontracting Agreement” (MSA) based on the individual PEPM determination. Under the MSA, LCMHA is also subject to the terms and conditions of the MMSSSC, Mental Health Code, and applicable state and federal laws. LCMHA received approximately \$11.1 million of Medicaid funding from the PIHP. LCMHA reported their Medicaid expenditures related to the MSA to the PIHP, and a settlement occurred between LCMHA and the PIHP. The PIHP then combined all affiliates’ reported Medicaid expenditures and reported them on a Financial Status Report (FSR) to MDCH, and a settlement between the PIHP and MDCH occurred after the fiscal year end. LCMHA also reported their Medicaid expenditures related to the MSA as an Earned Contract on their FSR with MDCH for information purposes only as no settlement occurred between LCMHA and MDCH relating to the Medicaid funds.

LCMHA also received special and/or designated funds, fee for services funds, and MICHild capitated funds under special contractual arrangements with MDCH. Each agreement specifies the funding methodologies. MICHild is a non-Medicaid program designed to provide certain medical and mental health services to uninsured children of Michigan working families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

The purpose of this review was to determine whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; to assess the agency's performance relative to the requirements and best practice guidelines set forth in the contracts; and to determine MDCH's and PIHP's share of costs in accordance with applicable requirements and agreements.

Objectives

1. FINANCIAL REPORTING

To assess LCMHA's effectiveness and efficiency in reporting their financial activity in accordance with the MSA, MMHSSC and MMSSSC requirements; applicable federal, state and local statutory requirements; Medicaid regulations; and applicable accounting standards.

2. CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

To assess LCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC, and MMSSSC requirements and best practice guidelines.

3. MDCH's AND PIHP's SHARE OF COSTS AND BALANCE DUE

To determine MDCH's and PIHP's share of costs in accordance with applicable requirements and agreements, and to identify any balance due to/from LCMHA.

SCOPE AND METHODOLOGY

We examined LCMHA's records and activities for the period October 1, 2002 through September 30, 2003. We completed an internal control questionnaire to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed LCMHA's finance director and other accounting and administrative personnel. We reviewed and evaluated LCMHA's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status report (FSR) in compliance with the MSA, MMHSSC and MMSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from September 2004 through October 2004.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

FINANCIAL REPORTING

Objective 1: To assess LCMHA's effectiveness and efficiency in reporting their financial activity in accordance with the MSA, MMHSSC and MMSSSC requirements; applicable federal, state and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: LCMHA did not accurately report their financial activity as required by the MSA, MMHSSC and MMSSSC, applicable statutory requirements, Medicaid regulations, and applicable accounting standards. We found exceptions related to capital asset purchases not properly capitalized and depreciated (finding 1), overcharges for less-than-arms-length leases (finding 2), incorrect allocation of administrative costs (finding 3), and lack of support for allocation of wages (finding 4).

Finding

1. Capital Asset Purchases Not Properly Capitalized and Depreciated

LCMHA did not properly capitalize and depreciate capital asset purchases in compliance with Office of Management and Budget (OMB) Circular A-87 and contract provisions.

The MMHSSC, Section 6.6.1, states, in pertinent part:

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for governmental units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report.

The MSA, Section XVII, B, states:

The accounting procedures and internal financial controls of the parties shall conform to generally accepted accounting principles in order that the costs and expenditures allowed by this Agreement can be readily ascertained and verified.

The MSA, Section XVII, D, states:

Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with the MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting, except for "Public Act 423 Special Grant Funds" (as local funds), shall be the methodology implemented by each party for the purposes of this Agreement.

OMB Circular A-87, Attachment B, Section 15, Depreciation and Use Allowances, states, in part,

a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.

OMB Circular A-87, Attachment B, Section 19, Equipment and Other Capital Expenditures, states, in part, *“d. Items of equipment with an acquisition cost of less than \$5,000 are considered to be supplies and are allowable as direct costs.”*

We noted four situations in which accounting for capital asset purchases did not comply with OMB Circular A-87 and contract provisions. These situations are described in detail in a. through d. below.

a) Full Year of Depreciation Improperly Expensed in Year of Acquisition

LCMHA started capitalizing and depreciating capital asset purchases in FY 2002-03. However, LCMHA expensed a full year of depreciation in the year of acquisition, even though most of the assets were not acquired until near the end of the fiscal year, which is not in compliance with GAAP, the MMHSSC, the MSA and OMB Circular A-87.

GAAP, Current FASB Standards, Chapter 12, Page 13, Partial-Year Depreciation, states: *“When an asset is placed in service during the year, the depreciation expense is taken only for the portion of the year that the asset is used.”*

Depreciation expense calculated for a partial year, based on the month of acquisition, resulted in an adjustment of \$4,061. This adjustment is made on Schedules A and B of this report.

b) Improper Reporting of Financed Fixed Assets

LCMHA improperly claimed mortgage and car payments as expenses on the FSR instead of claiming depreciation and interest, which is not in compliance with the MMHSSC, the MSA and OMB Circular A-87.

On April 12, 2002, LCMHA purchased a group home at a cost of \$164,592. Additionally, during FYE 2002 and FYE 2003, LCMHA purchased two vehicles at a cost of \$15,800 and \$16,646, respectively, with 0% interest. Rather than capitalizing the building and the vehicles, LCMHA improperly expensed the down payments and

all of the monthly mortgage and car payments, including both principal and interest (interest for the building only). The appropriate method of reporting expenses for these capital assets would be as depreciation or use allowance. Interest expense would also be allowable.

We allowed straight-line depreciation expense on the home. We assigned a useful life of 30 years. We removed the mortgage payments and allowed interest expense. We determined that the net adjustment applicable to the group home is (\$399) for FY 2002/2003.

We allowed straight-line depreciation expense on both vehicles. We removed the monthly car payments. We determined that the net adjustment applicable to the vehicles is \$6,244 for FY 2002/2003.

The net adjustment for both the group home and the vehicles is \$5,845 in FY 2003. This adjustment is shown on Schedules A and B of this report.

c) Improper Capitalization of Minor Equipment

LCMHA incorrectly capitalized and depreciated minor equipment having a cost less than \$5,000, in addition to expensing the entire amount of the asset on the expenditure section of the FSR, which is not in compliance with the MMHSSC, the MSA and OMB Circular A-87.

LCMHA acquired a laptop for \$2,187 that it charged to block grants and also depreciated on the FSR. Therefore, an adjustment should be made to remove the depreciation expense for \$328, which appears on Schedules A and B of this report.

d) Minor Equipment Purchases Neither Capitalized Nor Expensed

LCMHA understated the cost of minor equipment in the amount of \$998 on the expenditure section of the FSR, which is not in compliance with the MMHSSC, the MSA and OMB Circular A-87.

LCMHA incorrectly removed two purchases of minor equipment totaling \$998 from expenses. These purchases were recorded as capital assets, even though depreciation expense was not recorded. These two purchases should not be capitalized because they are minor equipment purchases under \$5,000. Therefore, the adjustment is made to add \$998 to the FSR. This adjustment appears on Schedules A and B of this report.

The above adjustments (1a. – 1d.) impact the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. These adjustments also impact the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The net change in Medicaid expenditures relating to the MSA is summarized in the Conclusion to Objective 3.

Recommendation:

We recommend that LCMHA establish policies and procedures to capitalize and depreciate fixed assets and record minor equipment in accordance with MMHSSC, MSA and OMB Circular A-87.

Finding

2. Overcharges for Less-than-Arms-Length Lease

LCMHA reported rent paid under a less-than-arms-length lease that exceeded underlying cost on the FSR, which is not in compliance with OMB Circular A-87.

The MMHSSC, Section 6.6.1, states, in part:

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for governmental units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report.

The MSA, Section XVII, D, states:

Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with the MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting, except for "Public Act 423 Special Grant Funds" (as local funds), shall be the methodology implemented by each party for the purposes of this Agreement.

MDCH requires adherence to OMB Circular A-87 with regard to accounting and reporting requirements.

OMB Circular A-87, Attachment B, Section 38.c. Rental Costs, states, in part,

Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where: (1) One party to the lease is able to control or substantially influence the actions of the other; (2) Both parties are parts of the same governmental unit; or (3) The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.

LCMHA leased their administrative offices at 1040 South Winter Street in Adrian, MI, from Lenawee County. This represents a less-than-arms-length lease since the Lenawee County Commissioners appoint LCMHA's board members. Accordingly, the allowable costs for this lease arrangement are limited to the amount that would be allowed had title to the property vested in LCMHA.

We reviewed the books and records of Lenawee County to determine the underlying costs. The underlying costs include: (1) bond principal and interest payments on building leased prior to October 1, 1998; (2) straight-line depreciation and interest on an air conditioning system; and (3) general maintenance costs, which includes among other things compensation for custodial staff and utilities.

Lenawee County's total allowable cost for the Human Services building was \$1,212,684. LCMHA occupied 23.01% of the building, so \$279,049 of the total cost is applicable to

LCMHA. However, LCMHA paid Lenawee County rent in the amount of \$314,307 and reported this cost on their FSR. Therefore, LCMHA reported \$35,258 in rent paid under a less-than-arms-length lease that exceeded underlying cost on the FSR.

Adjustments removing \$35,258 from reported costs are included on Schedules A and B of this report. This adjustment impacts the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. This adjustment also impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The net change in Medicaid expenditures relating to the MSA is summarized in the Conclusion to Objective 3.

Recommendation:

We recommend that LCMHA establish policies and procedures to claim only the underlying costs of leasing space from Lenawee County, a related organization, instead of the rent paid, to comply with OMB Circular A-87. We also recommend that LCMHA discontinue charging any underlying costs other than maintenance and utilities, when the bond is paid off and do not charge depreciation expense.

Finding

3. Incorrect Allocation of Administrative Costs

LCMHA did not properly allocate their administrative costs in compliance with OMB Circular A-87.

The MMHSSC, Section 6.6.1, states, in part:

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for governmental units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report.

The MSA, Section XVII, D, states:

Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with the MDCH accounting and reporting requirements including but not limited to the A87. In this regard, accrual accounting and reporting, except for “Public Act 423 Special Grant Funds” (as local funds), shall be the methodology implemented by each party for the purposes of this Agreement.

MDCH requires adherence to OMB Circular A-87 with regard to accounting and reporting requirements.

OMB Circular A-87, Attachment A, C. Basic Guidelines, states, in part,

- 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:...*
- b. Be allocable to Federal awards under the provisions of this Circular...*
- 3. Allocable costs.*
 - a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*
 - b. All activities which benefit from the governmental unit’s indirect cost...will receive an appropriate allocation of indirect costs...*
 - d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D, and E.*

OMB Circular A-87, Attachment A, F. Indirect Costs, states, in part,

- 1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved...Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.*

LCMHA allocated 59.2% of their administrative costs to the Medicaid Managed Care Program and 40.8% to the General Fund Program, but did not document their rationale for the distribution. Those allocation percentages are significantly different from the reported costs of the programs. Per the amounts supported by LCMHA, the total Medicaid Managed Care costs (excluding administration) were 70.29% and the total

General Fund costs (excluding administration) were 29.71%. Consequently, a 59.2% administrative cost allocation to the Medicaid Managed Care Program and a 40.8% administrative cost allocation to the General Fund Program does not appear to be an appropriate allocation of indirect costs.

A distribution based on direct costs showed an overstatement of General Fund costs and an understatement of Medicaid Managed Care costs by \$158,668. Audit adjustments to reduce General Fund expenditures by \$158,668 and to increase Medicaid Managed Care expenditures by the same amount are included on Schedules A and B of this report. This adjustment impacts the GF expenditure reporting and settlement with MDCH, which is shown on Schedule C. This adjustment also impacts the Medicaid expenditure reporting and settlement with the PIHP. Adjustments relating to Medicaid expenditures are shown on the Earned Contracts line (D3) on Schedule A, and also represent changes to reported expenditures to the PIHP. The net change in Medicaid expenditures relating to the MSA is summarized in the Conclusion to Objective 3.

Recommendation:

We recommend that LCMHA comply with OMB Circular A-87 and distribute indirect administrative costs based on direct costs or another equitable basis that is properly documented in accordance with OMB Circular A-87 requirements.

Finding

4. Lack of Support for Allocation of Wages

LCMHA did not properly report wages and fringe benefits in compliance with the requirements of the MSA, MMHSSC and OMB Circular A-87.

LCMHA charged portions of three employees' payroll to more than one reporting unit. These employees worked in more than one reporting unit and their wages were allocated equally to the reporting units they worked. LCMHA maintained no time reports or any other documentation to support this allocation.

The MMHSSC, Section 6.6.1, states, in part:

The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this contract based on financial and statistical records that can be verified by qualified auditors. The CMHSP will comply with generally accepted accounting principles (GAAP) for governmental units when preparing financial statements. The CMHSP will use the principles and standards of OMB Circular A-87 for determining all costs reported on the financial status report....

The MSA, Section XVII, D, states:

Each party understands and acknowledges that its accounting and financial reporting under this Agreement must be in compliance with the MDCH accounting and reporting requirements including but not limited to the A-87. In this regard, accrual accounting and reporting, except for "Public Act 423 Special Grant Funds" (as local funds), shall be the methodology implemented by each party for the purposes of this Agreement.

The MSA, Section XVII, E, states:

Each party shall maintain payroll records and other time keeping records, including any employee time allocation studies and any cost center(s) distribution formulae for costs of employees and subcontractors sufficient to document the provision of services required under this Agreement.

OMB Circular A-87, Attachment B, Section 11, Compensation for Personnel Services, Section h. sets forth standards regarding time distribution that are in addition to the standards for payroll documentation.

Sub-section h. (3) states:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Sub-section h. (4) states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meet the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on: (a) more than one Federal award, (b) a Federal award and a non-Federal award, (c) an indirect cost activity and a direct cost activity, (d) two or more indirect activities which are allocated using different allocation bases, or (e) an unallowable activity and a direct or indirect cost activity.

Sub-section h. (5) states:

Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee, (b) they must account for the total activity for which each employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes....

Although our review did not identify any major impropriety in the allocation of costs, the LCMHA needs to adhere to the above requirements to ensure that costs are properly identified and charged to the proper program. Failure to properly identify and allocate costs appropriately between programs could affect the agency's ability to satisfy the terms of the contracts and affect future funding from the MDCH.

Recommendation:

We recommend that LCMHA establish policies and procedures to ensure that methods used in allocating wages to different programs are in compliance with the requirements of OMB Circular A-87. We also recommend that LCMHA adopt policies and procedures to require employees who work on multiple activities or cost objectives to complete personnel activity reports or equivalent documentation, which meets the requirements of OMB Circular A-87. We also recommend that LCMHA retain documentation supporting

their methods of allocating wages to different departments in compliance with the contract requirements of the MMHSSC, MSA, and OMB Circular A-87.

CONTRACT AND BEST PRACTICE GUIDELINES

Objective 2: To assess LCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC, and MMSSSC requirements and best practice guidelines.

Conclusion: LCMHA was generally effective and efficient in establishing and implementing specific policies and procedures, and complying with the MSA, MMHSSC, and MMSSSC requirements and best practice guidelines. However, our assessment disclosed exceptions with lack of payment approval (finding 5), lack of compliance with terms of residential provider contracts (finding 6), and financial reporting (findings 1 through 4).

Finding

5. Lack of Payment Approval

LCMHA made payments for client transportation without the required approval, which is not in compliance with their policy and procedures.

LCMHA purchased 40 books of Dial-A-Ride Tickets (DART) from the City of Adrian. The tickets were to be used for client transportation. LCMHA did not have approval for payment for these tickets, as they did with other providers of client transportation or other vendors.

LCMHA's policies and procedures with regard to purchasing guidelines states:

All purchase requests must be processed through the Director of the Budget and Finance Department or Executive Director/Designee using the attached approved Purchase Requisition Form. The request forms must have the requester's signature as well as the appropriate supervisor's signature before being submitted for approval.

Once the Purchase Request has been processed and signed by the proper purchasing authority, the Accounting Manager or designee will produce a numbered purchase order and forward it to the Executive Director or designee for final approval.

Therefore, LCMHA's policy requires approval before payment of expenditures. We noted no other instance where LCMHA did not obtain the required approval before making any payments. Without approval for payment, LCMHA could be paying for expenditures not related to the Mental Health Program.

Recommendation:

We recommend that LCMHA adhere to their policies and procedures and obtain approval for payment of all expenditures.

Finding

6. Lack of Compliance with Terms of Residential Provider Contracts

LCMHA did not pay their residential contractors in accordance with the terms of their contracts.

LCMHA paid their residential contractors on a fee for service basis even though the contracts called for payments to be made based on a cost basis. The amounts that LCMHA paid agreed with the amounts per other fee for service contracts.

The boilerplate residential contract, Paragraph 4.3, states: *“Per Diem Rate: Rate per diem is dependent on actual costs as identified in the individual client budgets developed in the PCP process and approved by LCMHA’s designated representative.”*

The contracts with all residential providers called for predetermined amounts to be paid by LCMHA and did not include any budgets. The costs of providing the services were not determined. This is not in compliance with the terms of the residential contracts.

Recommendation:

We recommend that LCMHA implement policies and procedures to ensure the terms of their contracts with residential providers are followed. Additionally, we recommend that LCMHA implement policies and procedures to ensure that there are no conflicting clauses included in revised contracts.

MDCH's AND PIHP's SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine MDCH's and PIHP's share of costs in accordance with applicable requirements and agreements, and to identify any balance due to/from LCMHA.

Conclusion: The MDCH's obligation (excluding the MICHild capitated funds, Children's Waiver, and the Earned Contracts) is \$1,942,001. LCMHA owes a balance of \$155,302 to MDCH after considering advances and prior settlements, as shown on Schedule C of this report. WCHO's obligation to LCMHA for the "Medicaid Subcontracting Agreement" increased by \$127,508 to \$10,850,211 as a result of audit adjustments as shown on Schedule A Expenditures, Section D 3.

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$ -	\$ -	\$ -
B. Substance Abuse Total	\$ -	\$ -	\$ -
1 Medicaid Pass Through	-	-	-
2 Other	-	-	-
C. Earned Contracts (non DCH) Total	\$ 11,113,122	\$ -	\$ 11,113,122
1 CMH to CMH	-	-	-
2 Other	10,746	-	10,746
3 Medicaid Managed Care – CMHSP Affiliate	11,102,376	-	11,102,376
D. MI Child - Mental Health	\$ 12,284	\$ -	\$ 12,284
E. Local Funding Total	\$ 640,932	\$ -	\$ 640,932
1 Special Fund Account (226(a))	37,292	-	37,292
2 Title XX Replacement	1,209	-	1,209
3 All Other	602,431	-	602,431
F. Reserve Balances - Planned for use	\$ 101,613	\$ -	\$ 101,613
1 Carryforward -Section 226(2)(b)(c)	101,613	-	101,613
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/loss Insurance	-	-	-
G. DCH Earned Contracts Total	\$ 384,305	\$ -	\$ 384,305
1 PASARR	176,761	-	176,761
2 Block Grant for CMH Services	206,960	-	206,960
3 DD Council Grants	584	-	584
4 PATH/Homeless	-	-	-
5 Prevention	-	-	-
6 Aging	-	-	-
7 HUD Shelter Plus Care	-	-	-
8 Other DCH Earned Contracts	-	-	-

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

REVENUES		Reported Amount	Audit Adjustments	Adjusted Amount
H.	Gross Medicaid Total	\$ 28,271	\$ -	\$ 28,271
1	Medicaid - Specialty Managed Care	-	-	-
2	Medicaid - Children's Waiver Total	28,271	-	28,271
I.	Reimbursements Total	\$ -	\$ -	\$ -
1	1st and 3rd Party	-	-	-
2	SSI	-	-	-
J.	State General Funds Total	\$ 2,097,303	\$ -	\$ 2,097,303
1	Formula Funding	1,771,308	-	1,771,308
2	Categorical Funding	132,144	-	132,144
3	State Services Base	236,600	-	236,600
4	DCH Risk Authorization	(42,749)	-	(42,749)
5	Residential D.C.W.	-	-	-
K.	Grand Total Revenues	\$ 14,377,830	\$ -	\$ 14,377,830
L.	Estimated MDCH Obligation (G+H+J)	\$ 2,509,879	\$ -	\$ 2,509,879

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

EXPENDITURES		Reported Amount	Audit Adjustments	Adjusted Amount
A.	Gross Total Expenditures	\$ 13,976,569	\$ (44,494)	\$ 13,932,075
B.	Expenditures Not Otherwise Reported	\$ -	\$ -	\$ -
C.	Substance Abuse Total	\$ -	\$ -	\$ -
1	Medicaid Pass Through	-	-	-
2	Other	-	-	-
D.	Earned Contracts (Non MDCH) Total	\$ 10,733,703	\$ 127,508	\$ 10,861,211
1	CMH to CMH	-	-	-
2	Other Earned Contracts	10,746	-	10,746
3	Medicaid Managed Care – Affiliate	10,722,957	127,508	10,850,465
E.	MI Child - Mental Health	\$ 12,294	\$ -	\$ 12,294
F.	Local Total	\$ 217,442	\$ -	\$ 217,442
1	Local Cost for State Provided Services	20,144	-	20,144
2	Other Not Used as Local Match	44,667	-	44,667
3	Affiliate Contribution to State Medicaid Match Provided to PIHP	152,631	-	152,631
G.	Expenditures From Reserve Balances	\$ 481,031	\$ -	\$ 481,031
1	GF Carryforward - Sec 226(2)(b)(c)	101,613	-	101,613
2	Medicaid Savings	379,418	-	379,418
3	Internal Service Fund	-	-	-
4	Other (205(4)(h))	-	-	-
5	Stop/Loss Ins.	-	-	-

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

EXPENDITURES		Reported Amount	Audit Adjustments	Adjusted Amount
H.	MDCH Earned Contracts Total	\$ 384,305	\$ -	\$ 384,305
1	PASARR	176,761	-	176,761
2	Block Grant for CMH Services	206,960	-	206,960
3	DD Council Grants	584	-	584
4	PATH/Homeless	-	-	-
5	Prevention	-	-	-
6	Aging	-	-	-
7	HUD Shelter Plus Care	-	-	-
8	Other MDCH Earned Contracts	-	-	-
I.	Matchable Services (A-(B through H))	\$ 2,147,794	\$ (172,002)	\$ 1,975,792
J.	Payments to MDCH for State Services	\$ 181,298	\$ -	\$ 181,298
K.	Specialty Managed Care Service Total	\$ -	\$ -	\$ -
1	100% MDCH Matchable Services	-	-	-
2	All SSI and Other Reimbursements	-	-	-
3	Net MDCH Share for 100 % Services (K1-K2)	-	-	-
4	90/10 Matchable Services	-	-	-
5	Medicaid Federal Share	-	-	-
6	Other Reimbursements	-	-	-
7	10% Local Match Funds	-	-	-
8	Net State Share for 90/10 Services (K4-K5-K6-K7)	-	-	-
9	Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	-	-	-

Schedule A
Financial Status Report
October 1, 2002 through September 30, 2003

EXPENDITURES		Reported Amount	Audit Adjustments	Adjusted Amount
L.	GF Categorical and Formula Services			
	Total	\$ 1,938,225	\$ (172,002)	\$ 1,766,223
1	100% MDCH Matchable Services	733,930	(5,485)	728,445
2	All SSI and Other Reimbursements	-	-	-
	Net GF and Formula for 100% Services			
3	(L1-L2)	733,930	(5,485)	728,445
4	90/10 Matchable Services	1,204,295	(166,517)	1,037,778
5	Reimbursements	-	-	-
6	10% Local Match Funds	120,430	(16,652)	103,778
7	Net GF and Formula for 90/10 Services			
	(L4-L5-L6)	1,083,865	(149,865)	934,000
8	Total MDCH GF and Formula (L3+L7)	1,817,795	(155,350)	1,662,445
M.	Children's Waiver – Total	\$ 28,271	\$ -	\$ 28,271
1	Medicaid	28,271	-	28,271
2	Other Reimbursements	-	-	-
N.	Unobligated Spending Authority Total	\$ -	\$ -	\$ -
1	DCH Risk Authorization	-	-	-
2	All Other	-	-	-
O.	Total Local Match Funds (F+K7+L6)	\$ 337,872	\$ (16,652)	\$ 321,220
P.	Total MDCH Share of Expenditures			
	(J+K9+L8+M)	\$ 2,027,364	\$ (155,350)	\$ 1,872,014

Schedule B
Explanation of Audit Adjustments
October 1, 2002 through September 30, 2003

Gross Total Expenditures **(\$44,494)**

(\$4,061) to adjust depreciation to less than a full year in the year of acquisition (Finding 1a)

(\$5,845) to disallow mortgage and car payments and to allow interest and depreciation (Finding 1b)

(\$328) to disallow cost both capitalized and expensed (Finding 1c)

\$998 to allow cost neither capitalized nor expensed (Finding 1d)

(\$35,258) to remove rent paid under a less-than-arms-length lease that exceeded underlying cost (Finding 2)

Earned Contracts (Non DCH) Total

Medicaid Managed Care – Affiliate **\$127,508**

(\$2,404) to adjust depreciation to less than a full year in the year of acquisition (Finding 1a)

(\$3,994) to disallow mortgage and car payments and to allow interest and depreciation (Finding 1b)

(\$194) to disallow cost both capitalized and expensed (Finding 1c)

\$591 to allow cost neither capitalized nor expensed (Finding 1d)

Schedule B (continued)

(\$25,159) to remove rent paid under a less-than-arms-length lease that exceeded underlying cost (Finding 2)

\$158,668 to reallocate administrative costs based on cost of programs (Finding 3)

Matchable Services

GF Categorical and Formula Services Total **(\$172,002)**

(\$1,657) to adjust depreciation to less than a full year in the year of acquisition (Finding 1a)

(\$1,851) to disallow mortgage and car payments and to allow interest and depreciation (Finding 1b)

(\$134) to disallow cost both capitalized and expensed (Finding 1c)

\$407 to allow cost neither capitalized nor expensed (Finding 1d)

(\$10,099) to remove rent paid under a less-than-arms-length lease that exceeded underlying cost (Finding 2)

(\$158,668) to reallocate administrative costs based on cost of programs (Finding 3)

100% MDCH Matchable Services **(\$5,485)**

(\$1,851) to disallow mortgage and car payments and to allow interest and depreciation (Finding 1b)

Schedule B (continued)

(\$3,634) to remove rent paid under a less-than-arms-length lease that exceeded underlying cost (Finding 2)

90/10 Matchable Services

(\$166,517)

(\$1,657) to adjust depreciation to less than a full year in the year of acquisition (Finding 1a)

(\$134) to disallow cost both capitalized and expensed (Finding 1c)

\$407 to allow cost neither capitalized nor expensed (Finding 1d)

(\$6,465) to remove rent paid under a less-than-arms-length lease that exceeded underlying cost (Finding 2)

(\$158,668) to reallocate administrative costs based on cost of programs (Finding 3)

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2002 through September 30, 2003

I. State/General Fund Formula Funding		
A. GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense
1 State Managed Services	\$ 236,600	\$ 181,298
2 MDCH Risk Authorization - MDCH Approved for Use	(42,749)	-
3 Community Managed Services	1,903,452	1,662,445
4 Total State and Community Programs - GF/Formula Funding	\$ 2,097,303	\$ 1,843,743
B. Maintenance of Effort - Summary	\$ -	\$ -
C. Categorical, Special And Designated Funds		
1 Grant Pickup	\$ 35,720	\$ 35,720
2 Respite – Tobacco Tax	22,881	22,881
3 Multicultural Services	73,543	73,543
4 Total Categorical, Special and Designated Funds	\$ 132,144	\$ 132,144
D. Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	\$ 1,965,159	\$ 1,711,599
		Formula Funds
II. Shared Risk Arrangement		
A. Operating Budget - Exclude MOE and Categorical Funding		\$ 1,965,159
B. MDCH Share - Exclude MOE and Categorical Funding		\$ 1,711,599
C. Surplus (Deficit)		\$ 253,560
D. Redirect Freed Up Medicaid Funds		\$ -
E. Shared Risk - Surplus (Deficit)		\$ 253,560
F. Risk Band - 5% of Operating Budget (A x 5%)		\$ 98,258

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2002 through September 30, 2003

III. Cash Settlement	MDCH Share	Savings or Carryforward	Redirected Savings	Total	Grand Total
A. MDCH Obligation					
1 Specialty Managed Care (Net of MOE)	\$ -	\$ -	\$ -	\$ -	
2 GF/Formula Funding (Net of Categorical and MOE)	1,711,599	98,258		1,809,857	
3 MOE Specialty Managed Care MDCH Obligation	-	-		-	
4 MOE GF/Formula Funding MDCH Obligation	-	-		-	
5 Categorical - MDCH Obligation	132,144	-		132,144	
6 Total - MDCH Obligation					\$1,942,001
B. Advances – Prepayments					
1 Specialized Managed Care - Prepayments Through 9/30/03			\$ -		
2 Specialized Managed Care - FY 99 Prepayments after 9/30/03			-		
3 Subtotal - Specialized Managed Care				\$ -	
4 GF/Formula Funding - (Include MDCH Risk Authorization)				1,776,623	
5 Purchase of Services				236,600	
6 Categorical Funding				132,144	
7 Total Prepayments					\$2,145,367
C. Balance Due MDCH					\$ 203,366

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2002 through September 30, 2003

D.	Balance Due to MDCH for Unpaid State Service Costs		
	State Facility Costs	\$ 181,298	
	Actual Payments to MDCH	181,298	
	Balance Due MDCH		\$ -
E.	Dissolution of the ISF		\$ 24,770
F.	Net Balance Due MDCH		\$ 228,136
	Prior Settlement		(72,834)
	Balance Due to MDCH		\$ 155,302

Corrective Action Plan

Finding Number:	1
Page Reference:	5
Finding Title:	<u>Capital Asset Purchases Not Properly Capitalized and Depreciated</u> LCMHA did not properly capitalize and depreciate capital asset purchases in compliance with Office of Management and Budget (OMB) Circular A-87 and contract provisions.
Recommendation:	Establish policies and procedures to capitalize and depreciate fixed assets and record minor equipment in accordance with the MMHSSC, MSA and OMB Circular A-87 requirements.
CMHSP Comments:	Lenawee CMH Authority concurs with the audit finding.
Corrective Action:	Depreciation schedules are now being prepared and maintained by a consulting CPA firm. They prepare the necessary entries to the general ledger which are then reviewed by our financial auditors.
Anticipated Correction Date:	Ongoing
MDCH Response:	None

Corrective Action Plan

Finding Number: 2

Page Reference: 8

Finding Title: **Overcharges for Less-Than-Arms-Length Lease**
LCMHA reported rent paid under a less-than-arms-length lease that exceeded underlying cost on the FSR, which is not in compliance with OMB Circular A-87.

Recommendation: Establish policies and procedures to claim only the underlying costs of leasing space from Lenawee County, a related organization, instead of the rent paid, to comply with OMB Circular A-87. Also, discontinue charging any underlying costs other than maintenance and utilities, when the bond is paid off and do not charge depreciation expense.

CMHSP Comments: Lenawee CMH Authority accepts the finding as revised in the DCH letter dated 12/13/07 which changed the amount of the disallowed Building Rental cost to \$35,258.

Corrective Action: Lenawee CMHA has been in contact with Lenawee County regarding this issue. LCMHA will ask for annual documentation of building costs to determine the allowable lease amount. Lenawee County has been made aware that once the bond is paid off, only utility, maintenance, or other allowable underlying costs incurred by the County on behalf of Lenawee CMHA for the building being leased can be charged.

Anticipated Correction Date: Ongoing

MDCH Response: MDCH agreed to reduce the audit adjustment, allowing bond payments in lieu of depreciation for pre-managed care leases. Once the bond is paid off, MDCH will not accept further charges for the building besides operating expenses such as utilities and maintenance.

Corrective Action Plan

Finding Number:	3
Page Reference:	10
Finding Title:	<u>Incorrect Allocation of Administrative Costs</u> LCMHA did not properly allocate their administrative costs in compliance with OMB Circular A-87.
Recommendation:	Comply with OMB Circular A-87 and distribute indirect administrative costs based on direct costs or another equitable basis that is properly documented in accordance with OMB Circular A-87 requirements.
CMHSP Comments:	Lenawee CMH Authority concurs with the finding as revised in the DCH letter dated 12/13/07 which changed the amount of the reclassification to \$158,668.
Corrective Action:	Administrative cost allocation procedures were changed immediately to comply with the requirements of OMB Circular A-87
Anticipated Correction Date:	Ongoing
MDCH Response:	None

Corrective Action Plan

Finding Number: 4

Page Reference: 12

Finding Title: **Lack of Support for Allocation of Wages**

LCMHA did not properly report wages and fringe benefits in compliance with the requirements of the MSA, MMHSSC and OMB Circular A-87.

Recommendation: Establish policies and procedures to ensure that methods used in allocating wages to different programs are in compliance with the requirements of OMB Circular A-87. Adopt policies and procedures to require employees who work on multiple activities or cost objectives to complete personnel activity reports or equivalent documentation, which meets the requirements of OMB Circular A-87. Retain documentation supporting the methods of allocating wages to different departments in compliance with the contract requirements of the MMHSSC, MSA, and OMB Circular A-87.

CMHSP Comments: Lenawee CMH Authority agrees with the finding.

Corrective Action: Lenawee CMHA now has signed certificates from staff on file for those working in more than one department. The CMHPSM Regional Finance Committee is continuing to work on ways to improve our methods for allocating wages.

Anticipated Correction Date: Ongoing

MDCH Response: LCMHA must ensure that employees who work on multiple activities complete personnel activity reports that meet the standards of OMB Circular A-87, and wages and fringes are properly distributed according to the actual activity of each employee.

Corrective Action Plan

Finding Number:	5
Page Reference:	15
Finding Title:	<u>Lack of Payment Approval</u> LCMHA made payments for client transportation without the required approval, which is not in compliance with their policy and procedures.
Recommendation:	Adhere to internal policies and procedures and obtain approval for payment of all expenditures.
CMHSP Comments:	Lenawee CMH Authority concurs with the finding. This finding related to a one-time incident in which payment for client transportation appeared to be non-compliant with our policy. The payment in question, although not signed by the Director (as per our policy), was reviewed and approved by the Mental Health Board.
Corrective Action:	LCMHA will ensure that approval for payment of all expenditures complies with policy.
Anticipated Correction Date:	Ongoing
MDCH Response:	None

Corrective Action Plan

Finding Number:	6
Page Reference:	16
Finding Title:	<u>Lack of Compliance with Terms of Residential Provider Contracts</u> LCMHA did not pay their residential contractors in accordance with the terms of their contracts.
Recommendation:	Implement policies and procedures to ensure the terms of contracts with residential providers are followed. Implement policies and procedures to ensure that there are no conflicting clauses included in revised contracts.
CMHSP Comments:	Lenawee CMH Authority concurs with the finding.
Corrective Action:	LCMHA will ensure that the terms of contracts are followed and the inconsistent language is removed from the agreement.
Anticipated Correction Date:	Ongoing
MDCH Response:	None